

HOW TO CHOOSE A CREDIT CARD MINI-LESSON

A mini-lesson for:

secondary school teachers
adult and community educators
students and consumers



This mini-lesson includes learning objectives, background information, discussion questions, an activity and sources of additional information.

OBJECTIVES

Learners will:

- ◆ analyze the types, costs, terms, and conditions of credit cards
- ◆ understand the process to compare credit cards
- ◆ evaluate and select the appropriate credit cards

Charge It!

Using credit cards to pay for goods and services is a fact of life for most consumers. Yet, many consumers do not take the time to comparison shop for credit cards. We are more interested in rebates, bonuses or perks which allow us to earn credit toward other services or purchases. The more we charge with our credit cards, the bigger our rebate or bonus, but we fail to realize that usually these cards carry higher annual fees and finance charges. It is not a problem if you pay off your balance each month, but statistics on credit card use show that Americans are carrying increasingly high levels of credit card debt.

Almost everything can be put on a credit card. You can use credit cards to pay for telephone calls, speeding tickets, every kind of service, support for charitable organizations, funerals and credit cards can even reimburse you when purchases are lost, stolen or go on sale. So it is important to compare credit terms and costs of similar cards so that you can select the credit card that will give you the features and terms that meet your needs.

Types of Credit Cards

There are three basic types of credit cards:

1. **Travel and entertainment cards** such as American Express or Diners Club. They have no predetermined spending limits and must be paid in full each month.
2. **Bank cards** such as MasterCard, Visa, Discover, Optima, GM and Ford cards which are sponsored by individual banks. The bank defines spending limit (sometimes called credit lines) and each offers different terms and conditions. Banks offer a choice of payment methods, either pay the balance in full with no interest or pay a minimum part or some part of the balance with a finance charge.
3. **Company or Retail store cards** such as Sears, J.C. Penney, Shell, or Mobil. These cards are only accepted by the specific company and do not have an annual fee. However, the terms and conditions of these cards vary widely.

Benefits of Credit Cards

- ◆ You can shop or travel without having to carry large sums of cash. Credit cards are accepted all over the world and generally give the best currency exchange rates.
- ◆ You have immediate use of goods and services, especially important for expensive items like appliances or furniture.
- ◆ Credit cards can be used to deal with unexpected financial emergencies.
- ◆ They will help you keep track of how much you are spending each month by giving you a record of purchases.
- ◆ Credit cards offer a protection against theft. If your card is lost or stolen and you notify the credit card company immediately, you can only be liable for \$50 of unauthorized spending.
- ◆ Some credit cards offer special services such as reserving rental cars or tickets, replacement of lost or stolen merchandise, extension of the warranty or guarantee, air travel insurance and collision damage waiver insurance for rental cars.
- ◆ There is also consumer protection power with some credit cards. The credit card company may intercede on your behalf if you are unhappy with a purchase or if you failed to receive a purchase.

Credit Card Terms

When selecting a credit card, the following credit terms and conditions are important because they affect the total cost of credit:

"Annual Fee"

A flat, yearly charge similar to a membership fee, usually \$25 to \$50.

"Annual Percentage Rate"

The APR is the measure of the cost of credit expressed as a yearly rate.

"Finance Charge"

The dollar amount you pay to use credit, includes interest costs and all charges associated with the transaction.

"Grace Period or Free Period"

The grace period is the number of days you have before a credit card company starts charging interest on new purchases. Not all credit cards have a grace period.

"Periodic Rate"

The interest rate the card issuer applies to your outstanding account balance to figure the finance charge for each billing cycle.

"Transaction Fees"

Some credit card issuers charge a fee for a cash advance, a late payment or going over your credit limit. Sometimes there is a monthly fee if you did not use the card.

"Calculation of Finance Charges"

It is very important to know how the interest rate is calculated to compare and select the best credit terms. The credit card issuer will use one of three methods. You can decide which method is best suited to your payment style. The method used can make a big difference in the total amount of money you pay in finance charges. This is especially important when the APR's are identical for several credit cards. There can be a significant difference in the total amount of finance charges depending on the balance computation method used.

"Average Daily Balance Method"

This is the most commonly used method. You are given credit for your payment from the day the credit card issuer receives it and the interest is calculated on the basis of the average amount owed during the previous month.

"Adjusted Balance Method"

This method is the most beneficial to the consumer and produces the lowest finance charges. The balance is calculated by subtracting the payments and any refund credits from the balance you owe at the end of the previous billing period.

"Previous Balance Method"

This is the most expensive method. The finance charge is calculated on the balance owed at the end of the previous billing cycle. Payments, credits, and new purchases made in the current billing cycle are not included.

Examples of Methods of Computing Finance Charges:

Beginning Balance \$1,000
Payment \$800 on the 15th on the month
APR 18% or (1.5% monthly)

"Average Daily Balance"

Balance
\$600 (\$1,000 for 15 days and \$200 for 15 days)

Finance Charge
\$9 (\$600 times .015)

"Adjusted Balance"

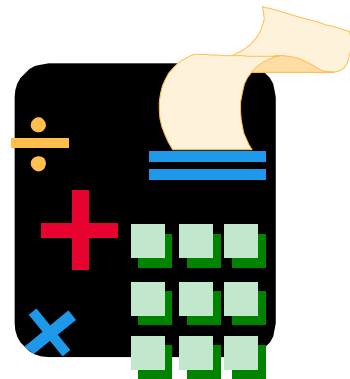
Balance
\$200 (\$1,000 minus \$800)

Finance Charge
\$3 (\$200 times .015)

"Previous Balance "

Balance
\$1,000

Finance Charge
\$15 (\$1,000 times .015)



Evaluating Credit Cards

When you evaluate various credit card options, consider the following factors as well:

- ◆ Compare the credit card interest rates. Look for a low interest rate card but remember the interest rate is not fixed so it can be adjusted either quarterly or by written notice by the bank or company. You may be able to negotiate with your bank for a lower interest rate.
- ◆ Compare how finance charges are calculated to help determine the total cost of credit.
- ◆ Look at all charges for each card. Some companies add other fees, such as late-payment fees if your payment arrives after the due date, or transaction fees every time you use the card. Grace periods vary as well. Companies generally start the grace period at the time the purchase is posted to your account. However with some cards, the grace period can start on the day of purchase.
- ◆ Decide what credit limit is appropriate for you. Determine the amount of money you can charge each month based on your income.
- ◆ The credit card you choose should be widely accepted to accommodate the majority of purchases you make. Fewer credit cards will make it is easier to keep track of your credit spending.
- ◆ Compare services and features, such as travel insurance, rebates, purchase protection plans, cash-back incentives, or extended warranties. Evaluate these features in terms of the extra credit costs to you.
- ◆ Make sure the annual fees are reasonable. Not all credit cards require an annual fee. It is worth shopping around to get the lowest fee or no-fee, especially if you pay off your balance each month.

Read each contract carefully before you sign so that you understand all the costs and conditions. Shop for a credit card the same way you would shop for any good or service. Try to negotiate for the options and conditions you want at the lowest cost available.

Questions To Ask When Selecting A Credit Card:

- ◆ What credit limit do you set for each card each month? (should be realistic to income and spending and a set amount for each card)
- ◆ Where will you use your card? (Which stores and for what services?)
- ◆ Which type of credit card(s) is appropriate? (Which type of card best meets your needs?)

- ◆ Will you pay off the balance each month? (Look for a low annual fee, other fees and a grace period.)
- ◆ Will you carry a balance? (Look for a low APR and periodic rate and determine which balance computation method is used.)
- ◆ Is there a grace period? (Look for an interest-free grace period, generally 25 to 30 days.)

How Many Cards?

Having too many credit cards can lead to overspending. If you limit the number of cards and set a limit on each card, you can control spending and avoid excessive debt.

Generally, you decide how many credit cards you need based on your spending habits and income. The accepted rule is that your monthly payments on all debts, excluding your mortgage payment, should not exceed 20% of your take home pay.

Generally, consumers want at least one bank card because it is widely accepted, can be used for identification and offers a variety of services and features. You might consider having two different bank cards. One with a no or low annual fee and higher interest rate for the balance you pay in full each month. A second one that has a low-interest rate and APR with a grace period for the balance you may not be able to pay in full. If you patronize a particular store or service station, you may want to get one of their cards for convenience.

Credit User Responsibilities

As a credit card user, you have the following responsibilities:

- ◆ Assess your financial situation and determine how much you can repay monthly.
- ◆ Understand the contract's costs and conditions so that you know the total cost of credit purchases.
- ◆ Keep copies of credit transactions and compare with your monthly statement.
- ◆ Remove carbons from credit card receipts and destroy them.
- ◆ Do not give your credit card numbers to anyone you do not know and trust.
- ◆ Pay your bill on time.
- ◆ Inform the creditor of any billing errors promptly.
- ◆ Notify the creditor if you cannot make your payments.

- ◆ Make a list of all credit card account numbers and the issuer's telephone number to use if your card(s) are lost or stolen.

See our Mini-Lesson on Credit Cards:

<http://www.dfi.state.in.us/conscredit/MiniLessons/CREDIT%20CARDS.htm>

See our Web Sites on Credit Cards:

http://www.dfi.state.in.us/conscredit/Credit_card_infor.htm

CREDIT CARD COMPARISON WORKSHEET

[illegible]

DISCUSSION QUESTIONS AND TOPICS

1. Define credit and list advantages and disadvantages of using credit.
2. Describe the types of credit cards.
3. Give three inappropriate uses of credit cards.
4. Differentiate between a bank card and a travel and entertainment card. What would be an appropriate use of each?
5. What factors would you consider when selecting a credit card?
6. Identify the steps to evaluate and select a credit card.
7. Explain the three methods of calculating finance charges.

CREDIT CARD QUIZ

1. A priority credit card is usually accepted by one type of store or company.
 - ☐ True
 - ☐ False
2. The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.
 - ☐ True
 - ☐ False
3. The annual fee for a credit card is set by the government.
 - ☐ True
 - ☐ False
4. APR measures the interest rate charged by a credit card.
 - ☐ True
 - ☐ False
5. If someone uses your lost or stolen credit card, you are liable for no more than \$50.
 - ☐ True
 - ☐ False
6. A credit card issued through a credit union would be an example of a (fill in the blank) card.
 - ☐ bank
 - ☐ travel and entertainment
 - ☐ store
 - ☐ priority
7. The grace period refers to the time:
 - ☐ taken to process a credit card application.
 - ☐ for paying an account without an interest charge.
 - ☐ allowed to notify a credit card company of a billing error.
 - ☐ used for calculating interest.
8. Comparing the APR among several credit cards allows you to obtain the:
 - ☐ longest grace period.
 - ☐ lowest annual fee.
 - ☐ lowest interest rate.
 - ☐ least expensive method of calculating interest.
9. If a billing error occurs on a credit statement, a consumer has (fill in the blank) days to notify the creditor.
 - ☐ 30
 - ☐ 60
 - ☐ 90
 - ☐ 120

CREDIT CARD QUIZ ANSWERS

1. A priority credit card is usually accepted by one type of store or company.
☐ True
2. The average daily balance method of calculating interest is based on the opening balance of the account for the previous month.
☐ False
3. The annual fee for a credit card is set by the government.
☐ False
4. APR measures the interest rate charged by a credit card.
☐ True
5. If someone uses your lost or stolen credit card, you are liable for no more than \$50.
☐ True
6. A credit card issued through a credit union would be an example of a (fill in the blank) card.
☐ bank
7. The grace period refers to the time:
☐ for paying an account without an interest charge.
8. Comparing the APR among several credit cards allows you to obtain the:
☐ lowest interest rate.
9. If a billing error occurs on a credit statement, a consumer has (fill in the blank) days to notify the creditor.
☐ 60

ACTIVITY

Using the Credit Card Comparison Worksheet evaluate three different credit card applications to determine the credit card costs, terms, and options. Then list the features that best suit your needs and spending habits in order of priority. With this information, you can analyze each credit card and select the right credit card for you.

Give students the Credit Card Quiz.

Give students a copy of our **Brochures** on Credit Cards.

SOURCES OF ADDITIONAL INFORMATION

Articles

Charged For An Item You Didn't Buy? Do this, Clark, Brian L., Money Magazine, p. 50, (September 1995).

Confessions of a Credit Card Surfer, Tarasovic, Janet, Kiplinger's Personal Finance Magazine, pp. 73-76, (February 1996).

Credit card deals--with strings attached, from Your family finances, Longo, Tracey, Kiplinger's Personal Finance Magazine, pp. 34-37, (February 1995).

Does your credit card match your style? From Shopping Smart, Sheets, Ken, Kiplinger's Personal Finance Magazine, pp. 112-116, (January 1995).

House Of Cards: Some Credit-Card Companies Use Deceptive Tactics To Lure You In - and Charge You Usurious Rates; Here's How To Avoid The Traps, Consumer Reports Magazine, pp. 31-34, (January 1996).

How to avoid being swamped by your credit-card debt, Smith, Kelly, Money Magazine, pp. 40-44, (March 1995).

I Chucked My Credit Cards and Saved More Than \$150 A Month, Sinanoglu, Elif, Money Magazine, pp. 64-66, (August 1996).

Many standard cards outshine gold ones now, from Your money monitor, Hube, Karen, Money Magazine, p. 38, (January 1996).

Playing Your Cards Right When You Use Plastic, Stone, Amey, Business Week Magazine, pp. 150-151, (November 28, 1994).

Rebate cards that are worth the high price, Sinanoglu, Elif, Money Magazine, pp. 45-50, (December 1995).

There's Help On The Way If You Face A Card Dispute, Stark, Ellen, Money Magazine, pp. 41-42, (May 1996).

Your credit card's consumer protection powers--and how to tap them, from Shopping Smart, Moreau, Dan, Kiplinger's Personal Finance Magazine, pp. 160-163, (March 1994).

Your ultimate guide to a super credit-card deal, Stark, Ellen, Money Magazine, pp. 34-38, (September 1996).

Pamphlets\

Available free from:
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834

ABC's of Figuring Interest (1994)
Credit Guide (1993)
Points of Interest. What Determines Interest Rates? (1993)

Available free from:
Federal Trade Commission (FTC)
Distribution Office, Room B-3
Washington, DC 20580-0001
Internet: <http://www.ftc.gov>

Choosing and Using Credit Cards
Credit and Your Consumer Rights
Gold and Platinum Cards

Available free from:
Mastercard
Telephone: 1-800-999-5136

Credit Card Basics (1993)

Available free from:
Visa U.S.A.
Telephone: 1-800-235-358

Credit Cards: An Owner's Manual (1992)

Available for \$1.00 each from:
Bankcard Holders of America
Customer Relations
524 Branch Drive
Salem, VA 24153
Internet: <http://www.epn.com/bha>

Credit Cards: What You Don't Know Can Cost You (1992)
Traveling With Your Credit Cards (1994)

Available free from:
Consumer Action
116 New Montgomery Street, #233
San Francisco, CA 94105

Saving Money on Credit Cards (1994)
Understanding Credit Card Costs (1994)

Available free from:
Board of Governors of the Federal Reserve System
Publication Services
Washington, DC 20551

The Card You Pick Can Save You Money (1995)

Internet

Indiana Department of Financial Institution's Web Site for additional information on credit cards: http://www.dfi.state.in.us/conscredit/CIcredit_card_infor.htm

Links to Interactive Credit Card Calculators at
http://www.dfi.state.in.us/conscredit/links_to_interactive_tool_calcul.htm##cards

Women's Forum Web Site on Credit Cards at
http://www.womensfinance.com/credit_basics

Federal Web site on Shopping for Credit Cards at
<http://federalreserve.gov/pubs/shop>

Credit cards are a great modern invention and are quick, convenient, and helpful in a wide variety of circumstances. However, teens can be especially vulnerable to credit difficulties and need to be cautioned about the pitfalls of credit cards. A credit card may seem like a "free ride" to many untried and unsuspecting young people and they end up accumulating a large debt long before they have the earning power to pay it off.

Around 6 million full-time college undergraduates now have credit cards. It doesn't matter that they have no income or credit history; card companies figure they'll get a job that can pay the bills. Parents don't have to cosign. In fact, you might not even know your kids have cards. But if they overspend, the card companies hope the parents will come to the rescue and pay the bill. Some firms even ask for parental income on the student's credit-card application.

It pays students who use credit responsibly to get a student card. They'll never get such easy credit again. But some students get so far into debt that they ruin their credit rating before they graduate. Two out of three undergraduates have at least one credit card and 27% of them have four or more cards according to a recent study by a national educational loan provider. The average credit card balance for undergraduates is \$1,879.

If your child gets a card, make sure he or she understands the significance of a clean credit history. Also explain why it's important to pay more than the minimum every month. The student who racks up a \$1,000 credit-card bill in the freshman year and pays only the low minimum each month will finish a bachelor's degree, a master's program, and still need three and a half years to pay off that freshman spending spree.

Credit card applications have been invading the mailboxes of high school students too.

HOW TO HELP PREPARE A CHILD FOR CREDIT RESPONSIBILITY

- ◆ Help teens set up a budget, open a checking account, and decide if or how credit cards can be used during young adult years.
- ◆ Consider various credit companies before acquiring a card. Read the contract carefully and talk with teens about terms and conditions found in the small print.
- ◆ Show teens what happens to a balance if only the minimum amount is paid monthly.
- ◆ Help them figure out how long it will take to repay the loan and what the actual cost of the item will be after all credit charges have been added.
- ◆ Explain that if he/she pays late or less than the minimum, he/she can be penalized with fees (up to \$30 per infraction) and a higher interest rate. Discuss what may happen when dealing with collection agencies.
- ◆ Keep a college student's credit limit low, \$500 to \$1,000, and instruct him/her to use the card only for emergencies. Spell out what is/is not "an emergency."
- ◆ Explain what the term "good credit rating" means, what it is used for, and why it is important to maintain one in today's economy. Discuss the consequences of a bad credit rating.
- ◆ Consider having the bills sent to your address so you can see they are paid on time.
- ◆ Tell your child to keep the card in a safe and secret place and to notify the card issuer immediately if it is lost or stolen.
- ◆ Recommend that students who choose to use credit cards limit themselves to one card and pay off the balance in full each month.

IF TEEN IS ALREADY IN TROUBLE

If your child is already in trouble, don't delay action:

Call your child's creditors before he defaults to avoid negative marks on his credit report. Ask them to lower interest rates or suspend new interest charges for six months. Get the new terms in writing.

If you decide to pay off the balance, ask the creditor to remove any penalty or legal fees and all negative marks they've put on your child's credit report. Before you hand over any money, get a letter confirming the agreed-upon amount is "payment in full" and that no further action will be taken. **Tip:** For help negotiating, call the nonprofit organization: Consumer Credit Counseling Services at 1-800-388-CCCS or visit Debt Counselors of America's web site at www.dca.org.

Consider a debt consolidation loan only if it will lower the interest rate, not just the monthly payment.

Check your child's credit report a few weeks later. If there are negative remarks, send the credit bureau copies of correspondence confirming your agreement.

Protect Your Child's Privacy:

Call 1-888-466-6936 for facts every concerned parent needs to know about protecting their child's privacy.



The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for
a copy of any of the brochures listed or for further consumer
credit information. You can also access information at our web
site on the Internet: <http://www.dfi.state.in.us>, then click on
Consumer Credit.



WARNING TO CREDIT CARD KIDS



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site <http://www.dfi.state.in.us>



SHOP FOR YOUR CREDIT CARD

Smart consumers comparison shop when looking for credit such as a mortgage or an auto loan. It is also a good practice to engage in when choosing a credit card. The choices you make can save you money.

Shop among some of the credit card issuers listed in this brochure. Compare them with cards you already have and with offers you receive in the mail for the terms that best suit your spending and repayment habits.

Key credit terms to consider in the credit card agreement are:

Annual Fee - a flat, yearly charge similar to a membership fee. Many credit card issuers charge an annual fee for granting you credit, typically \$15 to \$55. Some issuers charge no annual fee.

Annual Percentage Rate (APR) - the cost of credit expressed as a yearly rate.

Finance Charge - The dollar amount you pay to use credit. Besides interest costs, it may include other charges associated with transactions such as cash advance fees.

Transaction Fees and Other Charges- Some issuers charge a fee if you use the card to get a cash advance, if you fail to make a payment on time, or if you exceed your credit limit. Some may charge a flat fee every month whether you use the card or not.

Grace Period - A time, usually 25 days, during which you can pay your credit card bill without paying a finance charge.

Average Daily Balance - A balance calculation method most creditors use in calculating their finance charge. The average daily balance is calculated by adding each days balance and dividing the total by the number of days in the billing cycle.

Adjusted Balance Method - This balance used to calculate the finance charge is derived by subtracting the payments you've made from the previous balance. This method is most favorable to the customer.

CREDIT CARD FEATURES TO CONSIDER

Smart consumers find the best deal for their budgets and repayment styles. If you always pay your monthly bill/s in full, the best type of card is one that has no annual fee and offers a grace period for paying your bill without paying a finance charge.

If you don't always pay off the credit card balance/s at the end of the month, be sure to look at the annual percentage rate.

Example:

Terms	Card A	Card B
Average monthly balance	\$2,500	\$2,500
APR	x .18	x .14
Annual finance charges	\$ 450	\$ 350
Annual fee	+ \$20	-0-
Total Cost	\$ 470	\$ 350

Other features to consider are enhancements to the credit card that the issuer offers. Enhancements can include cash rebates, purchase protections, warranty guarantees, and usage incentives such as frequent flyer miles.

CREDIT CARD PLANS

The following credit card list is subject to change. Readers are encouraged to contact the credit card issuer for current rates and to learn about their other credit plans.

Codes Used in the Credit Card Plan List:
M = Master Card F = fixed rate
V = Visa V = variable rate
N = national R = only in selected states
T = tiered pricing, different rates for balance levels

State abbreviation = only in state specified
(G) = Gold Card (P) = Platinum Card

Institution, Plan & Availability	APR	Grace Period Days	Annual Fee	Telephone
Abbott Bank,MC,N	17.60V	25	0	800-426-6420
AFBA Ind Bk, V, N	VPrime +3.49	25	0	800-776-2265
Amalgamated Bk, M, N	VPrim + 4.5	25	0	800-723-0303
Baybank, M, N	16.90V	0	\$21	800-221-3393
Capital One (P)	9.9 Cash adv. 19.8	25	0	800-822-3397
Central Carolina, M, N	VPrime + 2.5	25	\$29	800-334-1073
Chevy Chase Bk, V, N	V Prime + 5.15	25	\$20	800-937-5000
Citibank, V, N	V Prime + 9.4	25	0	800-950-5114
Citizens TC, V, N	V Prime +7.15	25	0	800-922-9999
Columbus Bk, V, N	14.9V	25	12	800-348-8900
Crestar Bk, V, N	V Prime + 6.9	25	20	800-368-7700
FCC NB, V, N	V Prime + 9.9	25	0	800-368-4535
Fifth Third Bk, M, R	V Prime + 5.9	25	18	800-472-3030
1st of Am. Bk, M, N	V Prime + 8.4	25	0	800-423-3883
1st USA Bk, V, R	13.99F	25	0	800-955-9900
1st USA Bk, (P)	9.99	25	0	800-294-2993
GE Capital, M, N	19.8F	25	0	513-677-6736
Household Bk, V, N	15.65V	25	15	800-477-6000
Huntington Bk, V, IN (P)	V Prime	25	75	800-480-2265
Huntington Bk, V, IN (G)	V Prime + 1	25	49	800-480-2265
Huntington Bk, V, IN (G)	V Prime + 4.49	25	0	800-480-2265
Mellon Bk, M, N	V Prime + 8.25	20	35	800-753-7011
NBD, Skokie V, R	V Prime + 8.25	15	0	800-766-4623
Oak Brook Bk, M, N	V Prime + 4.9	25	17	800-666-1011
Peoples Bk, V, N	13.90F	25	25	800-426-1114
Providian Ban Cor, V, R	13.9V	25	0	800-964-6000
Pulaski Bank & Trust	9.45	25	50	800-980-2265
Pullman Bank & Trust (G)	VPrime +3	25	0	800-785-5626
Security NB, V, R	12.87V	25	18	800-356-8085
Simmons First Nat'l (G)	9.5	25	50	800-636-5151
Union Fed, V, IN	11.5F	25	0	800-284-8835
Union Planters, M,N	V Prime +3.75	25	29	918-664-1400
USAA Savings (G, P)	VPrime + 1	25	45	800-022-9092

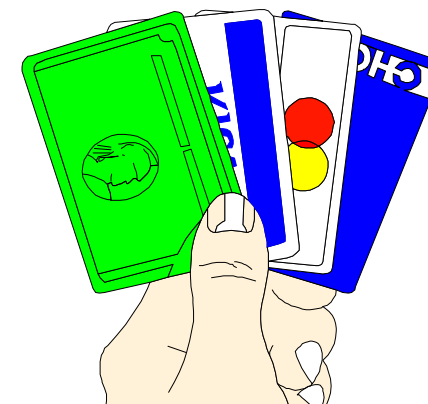
The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: <http://www.dfi.state.in.us>, then click on Consumer Credit.



CHOOSING A CREDIT CARD



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site <http://www.dfi.state.in.us>



"I got a call from a woman who said I need credit card loss protection insurance. I thought there was a law that limited my liability to \$50 for unauthorized charges. But she said the law had changed and that now, people are liable for all unauthorized charges on their account. Is that true?"

Don't buy the pitch - and don't buy the "loss protection" insurance. Telephone scam artists are lying to get people to buy worthless credit card loss protection and insurance programs.

If you didn't authorize a charge, don't pay it. Follow your credit card issuer's procedures for disputing charges you haven't authorized. Also see our Fair Credit Billing Brochure.

Credit Card Loss

If you report the loss before credit cards are used, the Fair Credit Billing Act says the card issuer cannot hold you responsible for **any unauthorized charges**.

If a thief uses your cards before you report them missing, the most you will owe for unauthorized charges is **\$50 per card**.

This is true even if a thief uses your credit card at an ATM machine to access your credit card account.

However, it's not enough simply to report your credit card loss. After the loss, review your billing statements carefully. If they show any unauthorized charges, send a letter to the card issuer describing each questionable charge.

Again, tell the card issuer the date your card was lost or stolen and when you first reported it to them. Be sure to send the letter to the address provided for billing errors. Do not send it with a payment or to the address where you send your payments unless you are directed to do so.

Worthless Credit Card Loss Protection Offers

The Federal Trade Commission says worthless credit card loss protection offers are becoming more common and fraudulent promoters try to exploit consumers. As a result, the agency is cautioning consumers to avoid doing business with callers who claim that:

- you are liable for more than \$50 in unauthorized charges on your credit card account.
- you need credit card loss protection because computer hackers can access your credit card number and charge thousands of dollars to your account.

- they're from "the security department" and want to activate the protection feature on your credit card.

The Federal Trade Commission advises consumers not to give out personal information - including their credit card or bank account numbers - over the phone or online for any product unless they are familiar with the business and have initiated the contact. Scam artists can use your personal information to commit fraud.

Buying a Registration Service

For an annual fee of \$10 to \$35, companies will notify the issuers of your credit and ATM accounts if your card is lost or stolen. This service allows you to make only one phone call to report all card losses rather than calling individual issuers. Most services also will request replacement cards on your behalf.

Purchasing a card registration service may be convenient, but it's not required. The Fair Credit Billing Act and the Electronic Funds Transfer Act give you the right to contact your card issuers directly in the event of a loss or suspected unauthorized use.

If you decide to buy a registration service, compare offers. Carefully read the contract to determine the company's obligations and your liability. For example, will the company reimburse you if it fails to notify card issuers promptly once you've called in the loss to the service? If not, you could be liable for unauthorized charges.



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- At Home Shopping Rights
- Bankruptcy Facts
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- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
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- Fair Debt Collection
- Gold Cards
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CREDIT CARD LOSS PROTECTION OFFERS

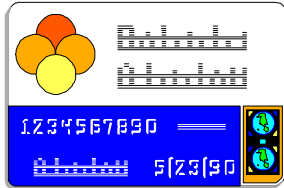
Don't buy the Pitch!



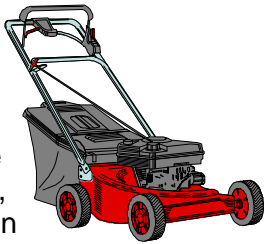
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Consumer Credit Division
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Indianapolis, Indiana 46204
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Most credit cards are unsecured. However, there are three ways in which some credit card lenders take collateral.



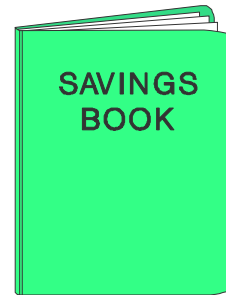
#1 SECURITY INTEREST IN ITEMS PURCHASED



Some credit card lenders, usually store credit such as Sears, claim to take collateral in items purchased with their card. This means that if you have problems making payments, those lenders may threaten to repossess property bought with the card. In addition, personal property collateral may affect your rights if you later need to file bankruptcy.

Most threats to repossess personal property are not carried out. Nevertheless, it is a good idea to know whether the security interest exists. If it does, use another card in preference to that card whenever possible.

#2 YOUR BANK ACCOUNT



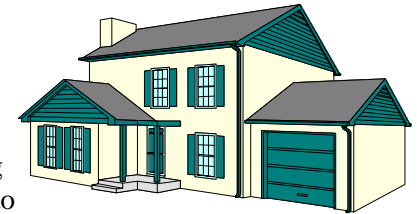
Another type of credit card taking a security interest involves card balances secured by a bank deposit. The card allows you a credit limit up to the amount you have on deposit in a particular bank account. If you can't make the payments, you lose the money in the account.

These cards are usually marketed as a good way to establish credit or to reestablish credit if you have had financial problems. They may be useful to establish that you can make regular monthly payments on a credit card after you have had problems in the past.

However, since almost everyone now gets unsecured credit card offers even after previous financial problems, there is less reason to consider allowing a creditor to use your bank deposits as collateral.

It is preferable not to tie up your bank account or to pay interest to a lender for the privilege of establishing that you can afford to make payments.

#3 HOME EQUITY LINE OF CREDIT



Finally, there are increasing opportunities to obtain credit cards in connection with a home equity line of credit. Each time you use the card, the balance is secured against your home.

In many cases these are sold by home improvement contractors as a good way to pay for home improvements. Sometimes the initial amount advanced on such a card is as much as your credit limit.

Home secured credit cards are almost always a bad idea. You should always seek to avoid using high-rate credit secured by your home because the potential consequence of nonpayment if you have financial problems is loss of your family's shelter by foreclosure. You will likely do better if you seek a more traditional home equity credit line from a bank at a lower rate of interest.

In general, all things being equal, you should seek and use credit cards which do not take collateral in preference to those that do. Since interest rates on cards that do take collateral are typically just as high as those on cards that do not, the choice in favor of unsecured cards should be clear.



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CREDIT CARDS THAT TAKE SECURITY INTERESTS



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FAST FACTS

- * Sign your new cards as soon as they arrive.
- * Avoid signing a blank receipt, whenever possible. Draw a line through blank spaces above the total when you sign card receipts.
- * Save your card receipts to compare with your billing statements.
- * Open billing statements promptly and reconcile your card accounts each month, just as you would your checking account.
- * Report promptly and in writing any questionable charges to the card issuer.
- * Never lend your card/s to anyone.
- * Never give your number over the phone unless you are initiating a transaction with a company you know is reputable.

Everyone pays for credit and charge card fraud in higher prices, whether or not they are personally defrauded.

While theft is the most obvious form of credit and charge card fraud, fraud occurs in other ways, as well. For example, someone may use your card number (not the card itself) without your permission. This may occur in a variety of ways:

- * A thief rifles through trash to find discarded receipts or carbons to use the card numbers illegally.
- * A dishonest clerk makes an extra imprint from your credit card or charge card for his or her personal use.
- * You receive a postcard or a letter asking you to call an out-of-state number to take advantage of a free trip or a bargain-priced travel package. When you call, you are told you must join the travel club first. You are asked for your credit card number so you can be billed for the membership fee. The catch? New charges continue to be added at every step and you never get your free or bargain-priced vacation.

HOW TO GUARD AGAINST CREDIT AND CHARGE CARD FRAUD

Here are some suggested precautions you can take to help protect yourself against credit and charge card fraud. You also may want to instruct any other person who is authorized to use your account to take the same precautions.

Sign your new cards as soon as they arrive.

Carry your cards separately from your wallet.

Keep a record of your card numbers, their expiration dates, and the phone number and address of each company in a secure place.

Keep your card in view, whenever you can, after you give it to a clerk. Retrieve your card promptly after using it.

Always keep your credit cards in a safe place. Check periodically to make sure that none are missing.

Avoid signing a blank receipt, whenever possible. Draw a line through blank spaces above the total when you sign card receipts.

Don't leave your receipt in the bag when you have made a purchase.

Void or destroy all carbons and incorrect receipts.

Save your card receipts to compare with your billing statements.

Open billing statements promptly and reconcile your card accounts each month, just as you would your checking account.

Report promptly and in writing any questionable charges to the card issuer.

Notify card companies in advance of a change in address.

Cut up your expired or cancelled credit cards before you throw them out.

Destroy anything with your credit card number on it before you throw it away.

In addition, here are some things you should **not** do:

Never lend your card(s) to anyone.

Never leave your cards or receipts lying around.

Never put your card number on a postcard or on the outside of an envelope.

Never give your number over the phone unless you are initiating a transaction with a company you know is reputable. If you have questions about a company, check with your local consumer protection office or Better Business Bureau before ordering.

Never give out your Social Security number over the phone to someone you don't know.

Don't print your Social Security number on your checks.

WHAT TO DO IF YOUR CARDS ARE LOST OR STOLEN

If your credit or charge cards are lost or stolen, call the issuer(s) immediately. Most card companies have a toll-free number for reporting missing cards. Some companies provide 24-hour service. By law, once you report the loss or theft, you have no further liability for unauthorized charges. In any event, your maximum liability under federal law is \$50 per card.

What To Do About Suspected Fraud

If you suspect that someone has illegally used your credit card, Report it to the police and call the card issuer immediately. Use the special telephone number that many card issuers list on their billing statements. You also may want to follow up your phone call with a letter.

You may be asked to sign a statement under oath that you did not make the purchase(s) in question, but you cannot be required to do so.

You should also contact the three major credit reporting agencies to alert them to the fraudulent use of your card. They have special fraud units established to assist

consumers. They are Equifax (800-685-1111), Trans Union (800-888-4213), and Experian (800-682-7654). You can contact the Associated Credit Bureaus web site at www.acb-credit.com.



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CREDIT & CHARGE CARD FRAUD



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880

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FAST FACTS

- * When you use a credit or charge card to check into a hotel or rent a car, the estimated amount of the transaction usually is "blocked" from your credit line immediately.
- * When renting hotel rooms or cars, ask clerks how much is being blocked on your credit card to avoid potential problems.
- * In some cases, the amount blocked from your credit line may remain for 10 to 15 days.
- * If you choose to pay your bill with the original credit card, the block is usually removed within a day or two.
- * When selecting a credit card, ask the card issuer how long credit lines are blocked for these transactions
- * If you pay your bill with a different credit card or cash, ask the clerk to release the block.

Have you ever presented your credit or charge card to a store clerk and been surprised when told you were over your credit limit? If this happened soon after you stayed at a hotel or motel or rented a car, the problem may have been caused by credit card "blocking."

HOW CREDIT CARD BLOCKING WORKS

When you use a credit or charge card to check into a hotel or motel or to rent a car, the clerk usually contacts your card issuer electronically with the estimated cost. If the card issuer approves the transaction, your available line of credit is reduced by this amount. This is called a "block" (or "authorization"). For example, suppose you use a credit card to check into a \$100-a-night hotel for five nights. At least \$500 would most likely be blocked on that

card. In addition, hotel and car rental companies sometimes add anticipated "incidental" costs for such things as food, beverages, or gasoline. These amounts can vary widely among merchants.

If you pay your bill with the same credit card you used at the beginning of the transaction, the final actual charge probably will replace the block within a day or two.

If, however, you use a different credit card, cash, or a check to pay for these services, the company that issued the credit card you originally presented might keep the block on for as long as 15 days after you've checked out of the hotel or returned the car.

This delay occurs because the first card issuer does not receive notice of the final charge and, therefore, is not aware that the transaction has been completed. Most card issuers program their computers to retain all blocks that have not been replaced by final charges for a specific number of days.

Issuers often choose a 10 or 15-day period because it is longer than most hotel stays and car rentals. Holding blocks for this long ensures that card holders do not use their entire credit limit before checking out of the hotel or returning their rental car, leaving the hotel or rental car company unpaid. The number of days that blocks are retained varies widely among card issuers.

WHY CREDIT CARD BLOCKING CAN BE A PROBLEM

Consumers who are far below their credit limit probably will not be affected by credit card blocking. But for consumers with charges close to their credit limit, credit card blocking can present problems. For example, consumers who need to use their cards for emergencies may find that, because of this temporary block, they have no credit left to use.

Those consumers who pay for their room or rental car with cash, a check, or a different credit card also may have problems. They may find that they do not have access to the amount of the block for 10 or 15 days, even though they already have paid the bill in full.

HOW TO PROTECT YOURSELF

If you do not want the aggravation that blocking can cause, you may want to:

- * Consider paying for all hotel, motel, or rental car expenses with the same credit card you used at the beginning of the transaction.
- * When you check into a hotel or pick up a rental car, ask clerks how much is being blocked on your credit line and how that amount was determined.
- * If you pay with a different credit card or cash, ask the clerk to remove the block.

In addition, when selecting among credit cards, ask credit card issuers how long credit lines are blocked for transactions involving hotels, motels, and rental cars. You may wish to choose an issuer that removes blocks more quickly.

FOR MORE INFORMATION

If you have questions or concerns about credit card blocking, write: Credit Card Blocking, Correspondence Branch, Federal Trade Commission, Washington, DC 20580. These comments help the FTC in its law enforcement efforts.

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